

Redacted



FINAL INTERNAL AUDIT REPORT

PROPERTY SERVICES – FACILITIES MANAGEMENT - CONTRACT MANAGEMENT

PLA/06/2023

8 March 2024

Auditor	Senior Auditor (Mazars LLP)
Reviewer	Assistant Manager (Mazars LLP)
	Manager (Mazars LLP)
	Manager (Mazars LLP)
	Partner (Mazars LLP)

Distribution list

Job Title
Assistant Director Strategic Property (Interim)
Head of Facilities Management (Interim)
Director – Housing, Planning and Regeneration
Head of Finance

Executive Summary

Audit Objective	The overall objective of the audit was to assess the adequacy and effectiveness of internal controls regarding contract management practices within the Facilities Management team, which form part of Property Services.
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Assurance Level		Findings by Priority Rating		
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.	Priority 1	Priority 2	Priority 3
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Key Findings
<p>1. The Council has 16 active contracts in place concerning facilities management. The testing completed in this audit focused on a sample of five contractors, four of which represent those with the highest value and one low-value contract.</p> <p>2. We reviewed the contracts and service agreements for each and confirmed these outlined the Council's and contractors' roles and responsibilities. Contract details, such as commencement and expiration dates, as well as total contract value, had been outlined correctly within the Council's contract register.</p> <p>3. We confirmed that contract specifications had been documented for the sample of five contractors, which outlined the specific services to be delivered – including details on the specific locations for services to be provided and frequency of service provision. The service specifications also provided details on the precise methodology for completing work. They outlined the Council's expectations regarding service standards and the completed work quality.</p> <p>We have identified the following areas for management attention:</p> <p>4. Performance Monitoring Arrangements (Priority 2) Our testing confirmed that the performance monitoring arrangements and key performance indicators (KPIs) to be monitored for each of the five contractors within our sample had been outlined within the contractual agreements. However, our testing noted that the KPIs outlined within the contracts had not been reported for four of these contracts. See Recommendation 1.</p> <p>5. Budget Monitoring Arrangements (Priority 2) The Council monitors expenditure for its primary repairs and maintenance contractors via an Excel spreadsheet that compares the monthly and cumulative expenditure against budgeted amounts. However, the Council does not maintain oversight over the expenditure for all other facilities management contractors and does not produce detailed management information to maintain effective oversight over budgetary performance per contractor or to justify budgetary over/under spends. See Recommendation 2.</p> <p>6. Oversight Over Quality of Service Delivery (Priority 2) As part of an effective control framework related to contractor management, the Council should maintain sufficient oversight over the quality of works and services delivered by its contractors to ensure that instances of sub-standard service delivery</p>

are promptly identified and resolved. Our testing highlighted that the Council does not have a post-inspection process whereby the quality of work is regularly reviewed and scrutinised. **See Recommendation 3.**

7. **Understanding Issues Related to Existing Facilities Management Contracts (Priority 2) and Incomplete and Inaccurate Asset Register (Priority 2)**
Without a detailed asset list outlining all equipment under the Facilities Management remit and their respective servicing/inspection dates, we sought to confirm whether the Council has an effective strategy to overcome any challenges faced as a result of this and whether an exercise has been completed to identify the issues experienced by its current contractors before retendering the facilities management contracts. The Interim Head of Facilities Management advised us that the Council is in the preliminary stages of appointing a contractor to create a comprehensive asset register. However, a formal exercise to identify the challenges faced by its existing contractors has not yet been completed. **See Recommendations 4 and 5.**
8. **Payments not Aligned with Contract Terms (Priority 2)** To ensure that payments to contractors were made following the contract payment terms and for the services delivered, we reviewed the three most recent invoices for the sample of five contractors. Our testing confirmed that for three contractors, invoices were paid in line with the contract payment terms, and we were able to confirm the invoices, with the related application for payments. However, our testing identified instances related to two contractors where payments were inconsistent with the contractual payment terms. **See Recommendation 6.**

Management has agreed to take action for all findings raised in this report. **Please see Appendix A.**

*Definitions of assurance opinions and priority ratings are in **Appendix B.***

*The scope of the internal audit is set out in **Appendix C.***

Appendix A - Management Action Plan

1. Performance Monitoring Arrangements

Finding

Our review of the contractual agreements and specifications confirmed that performance monitoring arrangements, such as frequency of meetings and key performance indicators (KPIs) to be reported, had been clearly outlined for the sample of five contractors. We requested the three most recent performance monitoring reports and meeting minutes for each of the five contractors to confirm that agreed performance monitoring arrangements were adhered to.

For one contractor, we confirmed monthly performance information was provided to the Council by review of June, July and August 2023 performance reports. These included detail on the progress of the planned maintenance programme, issues arising, health and safety incidents and findings from site audits. However, monthly performance information/KPIs, for the remaining four contractors within our sample was not provided.

The Interim Head of Facilities Management advised that monthly informal meetings are held between the Council and three contractors. However, we were advised that the contractors did not report/monitor KPIs, as agreed within the contract specifications. For the final contractor, we were advised the Council does not hold regular meetings or receive performance reports due to the relatively low contract value; though we noted that the respective contract stipulated that KPIs would be reported to the Council monthly.

Risk

The Council does not maintain effective oversight over the performance of its contractors. It cannot identify and scrutinise sub-standard contractor performance, thus continuing to utilise ineffective contractors and leading to adverse value for money performance and reputational damage.

Recommendation

The Council should ensure that performance monitoring arrangements, as outlined within contractual agreements, are followed and sufficient performance information is received from the contractors to allow the Council to evaluate service performance appropriately.

This should include maintaining regular, documented meetings with contractors once information is received to ensure performance is discussed and actions are taken when poor performance is identified. Regular meetings should then revisit discussions and actions assigned to ensure these are followed up and completed.

Rating

Priority 2

<p><u>Management Response and Accountable Manager</u></p> <p>The management and accountable manager note the recommendations of the report. Urgent management attention will be given to ensuring the following:</p> <ul style="list-style-type: none"> • That performance monitoring arrangements, as outlined within contractual agreements are followed and sufficient performance information is provided by the contractors to allow the Council to evaluate service performance appropriately. • It is noted that this should include maintaining regular, documented meetings with contractors. • Once information is received from Contractors to ensure performance is discussed and actions are taken when poor performance is identified. • That regular meetings should revisit discussions and actions assigned to contractors ensure these are followed up and completed. <p>Assistant Director – Strategic Property / Head of Facilities Management</p>	<p><u>Agreed timescale</u></p> <p>28 February 2025</p>
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2. Budget Monitoring Arrangements

<p><u>Finding</u></p> <p>We assessed whether the Council has budget monitoring arrangements to effectively review and scrutinise monetary performance and ensure that any budgetary overspends are promptly identified and addressed.</p> <p>The Facilities Management Team maintains a spreadsheet which records the total expenditure for its primary repairs and maintenance contractors. The spreadsheet outlines a comparison of the monthly and cumulative expenditures against the contract budget. However, the spreadsheet does not provide detailed information or commentary to explain the expenditure incurred or variances against the budgeted amounts. For example, as of October 2023, the budget monitoring spreadsheet outlined an overspend of £74,456 for one contractor when comparing cumulative expenditure to the total contract value, however, commentary to justify or explain the overspend had not been documented.</p> <p>The Council did not produce similar budget monitoring information for the other contractors in our sample, as we were advised by the Interim Head of Facilities Management that they were fixed monthly contract costs, so expenditure was not monitored.</p> <p>The Council's Finance Team produces monitoring reports for repairs and maintenance costs, where actual expenditure is compared against the budget. Our review of the September 2023 spreadsheet noted that the actual expenditure for major and reactive repairs, property refurbishment, asbestos works, water services maintenance, and fire safety works had been collated and compared against budgets. However, the spreadsheet did not outline a breakdown of the</p>
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expenditure related to the facilities management function or total expenditure per contractor; the spreadsheet outlined that the budgeted expenditure for 2023/24 was £2,519,560 and we noted that as of September 2023, total expenditure was £1,510,690.

The Operations Manager advised that the Facilities team schedules monthly meetings with the Finance team to review financial performance. We requested the three most recent monthly meeting reports or minutes from the discussions. However, we were advised that the meetings had been cancelled due to limited staff capacity and no evidence was provided.

Risk

Due to insufficient financial performance information available, the Council does not maintain effective oversight over budgetary commitments and is unable to effectively review and scrutinise financial performance for the facilities management function and budgetary performance of its contractors.

Recommendation

Facilities Management should liaise with Finance to ensure that they have access to sufficient granular financial information, including a breakdown of expenditure per contractor, to enable them to accurately monitor spend and identify potential variances or overspends.

This financial information should be regularly monitored within the team and discussed. Variances should be investigated and explained, with actions identified and followed up as appropriate.

Facilities Management and Finance should agree the frequency of meetings required on a risk basis and jointly ensure that these are maintained and documented.

Rating

Priority 2

Management Response and Accountable Manager

The management and accountable manager note the recommendations of the report. Urgent management attention will be given to ensuring the following:

- Liaison with Finance and FM to ensure that there is sufficient access to granular financial information, including breakdown of expenditure per contractor to enable accurate monitoring of spend and identify potential variances/overspends.
- That the relevant financial information should be regularly monitored and discussed within the team.
- Variances should be investigated and explained, with actions identified and followed up as appropriate.
- Finance and FM should agree the frequency of meetings required on a risk basis and jointly ensure that these meetings are maintained and documented.

Assistant Director – Strategic Property / Head of Facilities Management

Agreed timescale

28 February 2025

3. Oversight Over Quality of Service Delivery

Finding

We considered whether the Council has controls to review the adequacy of completed contractor works to identify and rectify instances of sub-standard or non-delivered services. The Interim Head of Facilities Management advised that the Council does not complete post-inspections of completed works and has no other alternative controls or processes in place to evaluate completed works or ensure that agreed services have been effectively delivered.

We were advised by management that before 2015, the Council used to complete post-inspections of completed works, whereby ten percent of completed works were reviewed monthly to review the quality and adequacy of completed services/works. However, the Council no longer completes post-inspections due to limited staffing resources and availability within the Facilities Management Team as advised by management.

Risk

The Council fails to identify and remediate incomplete or sub-standard contractor performance appropriately and continues to utilise ineffective contractors, thus leading to adverse value-for-money performance and reputational damage.

Recommendation

The Council should complete periodic post inspections for a sample of services delivered by its facilities management contractors, whereby the quality and adequacy of completed works are reviewed and where any identified issues are discussed and resolved directly with the contractors. This could be done on a risk-based approach.

Rating

Priority 2

Management Response and Accountable Manager

The management and accountable manager note the recommendations of the report. Urgent management attention will be given to ensuring the following:

- The Council should complete periodic post inspections from a sample of services delivered by its FM contractors, to assess the quality and adequacy of completed works and where any issues are identified that they are discussed and resolved directly with the contractors on a risk-based approach.

Assistant Director – Strategic Property / Head of Facilities Management

Agreed timescale

28 February 2025

4. Understanding Issues Related to Existing Facilities Management Contracts

Finding

Existing facilities management contracts are due to expire in September 2024.

We assessed whether there was a clear and effective understanding of any issues experienced on the existing contracts, and if an exercise has been completed whereby any issues have been identified. Via discussion with the Interim Head of Facilities Management, we noted that the Council was aware of some issues. However the Council had not documented an exercise to determine the lessons learned and improvements to be made to the new contracts. Linked to other findings in this report, there is also a lack of KPI monitoring and reporting, formal documented performance and budget monitoring meetings.

Risk

The Council is unaware of the shortcomings and issues experienced with its current contracts and fails to implement the necessary changes when retendering contracts, thus failing to rectify underperforming service delivery areas and not achieving value for money.

Recommendation

The Council should identify all contracts due to be retendered and complete a lessons learned exercise, whereby the issues experienced during the duration of the contracts are identified, alongside the improvements and changes to be made when retendering the contracts.

As discussed within Issue 1 of the Management Action Plan, the Council should ensure that sufficiently detailed performance monitoring reports and KPIs are being reported for all contractors, to ensure that an effective evaluation of the quality of contractor performance can be completed.

Rating

Priority 2

Management Response and Accountable Manager

The management and accountable manager note the recommendations of the report and confirm the following

- A review on individual existing contracts to be undertaken to ascertain any contents that may need to be changed, or additional added, to increase robustness for new contracts due for procurement.
- Instigate a review on KPI levels across the contracts and ensure they fall in line with a single standard that can be measured to identity performance across all contracts.
- Undertake regular documented contract meetings with each individual supplier to review KPI's.

Head of Facilities Management

Agreed timescale

28 February 2025

5. Incomplete and Inaccurate Asset Register

Finding

The Interim Head of Facilities Management advised that the Council does not have a complete and accurate asset register which records all assets within the Council's operational buildings. Management advised us that the Council has not implemented a strategy or alternative arrangements to overcome the absence of an accurate asset register, as the existing contractors have been utilised for multiple years and, thus, have an appropriate understanding and knowledge of all relevant assets.

Management advised that the Council has contacted an external consultant to provide a quote for the proposed asset register development. We requested evidence of any correspondence or information related to the prospective appointment. However, we were not provided with the requested information.

Risk

The Council has an ineffective understanding of all assets within its operational buildings, which leads to assets not being included in the servicing and maintenance programmes, thus compromising the safety of the equipment and occupants.

<p><u>Recommendation</u></p> <p>The Council should continue its procurement exercise to appoint a contractor to develop and document a comprehensive asset register. After a detailed record of Council assets is created, the register should be shared with existing (or prospective contractors) to form the basis of the planned maintenance/servicing programme and future procurement exercises.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
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<p><u>Management Response and Accountable Manager</u></p> <p>The management and accountable manager note the recommendations of the report and confirm the following</p> <ul style="list-style-type: none"> • The Council is currently in the process of undertaking a procurement process through an identified Framework to undertake a full asset register across all operational buildings. • Once completed this will be issued as part of any new procurement process for future contracts, applicable to the discipline, for maintenance and servicing to plant and equipment across the estate. <p>Head of Facilities Management</p>	<p><u>Agreed timescale</u></p> <p>28 February 2025</p>
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6. Payments not Aligned With Contract Terms

Finding

We reviewed the three most recent invoices (April, May and June 2023) alongside related supporting evidence to confirm that payments were made in line with the terms of the contracts and for actual services delivered. Our testing confirmed that the three most recent payments for three contractors were made in line with the amounts outlined within the contracts. This was confirmed via review of the invoices with the related application for payments, which provided a breakdown of all jobs related to the invoices. However, our testing noted issues with the two remaining contractors as follows:

Contractor A

Although we requested the three most recent invoices, we were only provided with the March 2023 invoice related to the services provided for April, May and June 2023. We noted that the contract stated that the disposal services were to be invoiced in arrears monthly. However, the March 2023 invoice was paid before the services to be provided within the following quarter. We queried this with the Interim Head of Facilities Management, who was unaware of the reasons behind the services being invoiced differently from the contract payment terms. Financial Regulations stipulate that 'Payments in advance should only be made where there is no practical alternative, and the reasons should be recorded. Payments should not be made in advance of goods or services being delivered'.

Also, we noted that the March 2023 invoice amount was £2,314, which exceeded the £1,352 cost calculated when using the contract's annual value. Management advised us that the additional expenditure related to further services requested by the Council to assist staff in preparing to relocate office workspaces from Civic Centre to Churchill Court. However, management did not provide evidence or correspondence to confirm that additional services had been requested and the costs agreed in advance.

Contractor B

Our review of the April, May and June 2023 invoices noted that the Council paid a monthly amount of £27,784.50, rather than the £26,052.47 agreed with Contractor B before the commencement of the 2023/24 financial year. We queried this with management and were advised that the Council requested additional services; however, management did not provide any evidence or correspondence to confirm that additional services had been requested and the costs agreed in advance.

Risk

The Council processes inappropriate payments for services not delivered by its contractors, leading to adverse value for money performance and financial loss.

Recommendation

Rating

Priority 2

<p>The Council should ensure that all payments made to its contractors are paid following the contract payment terms and that an appropriate audit trail is maintained to justify any additional expenditure incurred from where extra services are requested.</p>	
<p><u>Management Response and Accountable Manager</u></p> <p>The management and accountable manager note the recommendations of the report and confirm the following</p> <ul style="list-style-type: none"> • Review the current practise to approval of supplier payments and put in place, as necessary, measures to ensure payments are made in line with contract payment terms. • Where you have a supplier with a repetitive contract with a set monthly payment, on occasions additional work may be required, this additional work should be instructed in accordance with such variations to the contract as outlined within the contract documents and recorded on the contract data base. <p>Head of Facilities Management</p>	<p><u>Agreed timescale</u></p> <p>28 February 2025</p>

Appendix B - Assurance and Priority Ratings

Assurance Levels

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Action Priority Ratings

Risk Rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.

Appendix C – Audit Scope

Audit Scope

We reviewed the adequacy and effectiveness of controls over the following risk areas:

- **Contracts**

- Contractual arrangements clearly set out the roles and responsibilities of the relevant parties.
- The contracts contain clear and measurable requirements against which contractor performance can be monitored.

- **Schedule of Works**

- There is a clear schedule of works which sets out the requirements and standards the Council expects from the contract.

- **Asset Management**

- A strategy to overcome the lack of a comprehensive asset list has been developed, and a procurement exercise is due to commence to appoint a comprehensive asset register across the Council's estate.
- There is also a proposed strategy for retendering the Facilities Management contracts once the asset register has been undertaken. The challenges that exist at present have been identified and reported to Members through the formal channels.

- **Quality Control, Rectification and Default**

- Sub-standard, incorrect, incomplete and non-delivered services are identified, and subsequent management corrective action taken.
- Where there are clear arrangements in place for the deduction of penalties or non-payment of incentivised bonuses in the event of substandard, incorrect, incomplete and non-delivered services is followed.

- **Payments**

- Payments made to the contractor are in accordance with the contracts and for services delivered.

- **Performance Monitoring**

- There is a robust process of performance monitoring in place that ensures that the quality of services is in accordance with Council requirements.

- **Budgetary Control**

- Budgets are effectively monitored and under/overspends are promptly identified and addressed.